COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. TO ADJUST ELECTRIC RATES	)))	CASE NO. 94-336

O R D E R

IT IS ORDERED that the East Kentucky Power Cooperative, Inc. ("East Kentucky") shall file an original and 10 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. The information requested herein is due no later than February 8, 1995.

1. Refer to the response to Item 1 of the December 14, 1994 Order.

a. Identify the cost-of-service reasons East Kentucky has referenced as a basis for not including the Gallatin Steel adjustment in the Statement of Operations.

b. Explain why cost-of-service concerns should lead to the exclusion of Gallatin Steel's impacts on the proforma Statement of Operations.

2. Refer to the response to Item 3(c) of the December 14, 1994 Order.

a. Why did East Kentucky decide to terminate the Deferred Power Bill Plan?

b. Explain what actions East Kentucky anticipates it will take against a member cooperative who has not paid its outstanding balance under the plan by April 1, 1995.

3. The response to Item 4 of the December 14, 1994 Order did not include requested information on East Kentucky's test-year-end short-term investment balances and applicable interest rates. Provide the originally requested information.

4. Refer to the response to Item 5 of the December 14, 1994 Order.

a. Why is a five-year amortization schedule used for a two-year promissory note?

b. When did East Kentucky change to using a two-year note and what was the time period of the notes prior to the change?

c. Provide an amortization schedule of a $10,000 residential marketing loan under the current rules. Compare the results to a similar amortization schedule for the same loan using a two-year rather than five-year amortization basis.

5. Refer to the response to Item 10 of the December 14, 1994 Order. For each of the employees listed below, provide the employee job title, a description of the job duties, the employee's grade and step, and the number of years employed at East Kentucky.

a. EE ID No. 3769.

b. EE ID No. 2519.

c. EE ID No. 1679.

d. EE ID No. 8132.

e. EE ID No. 9708.

f. EE ID No. 3373.

g. EE ID No. 7792.

h. EE ID No. 8538.

i. EE ID No. 5978.

6. Concerning the Supplemental Executive Retirement Plan ("SERP"):

a. Describe the eligibility requirements, terms, conditions, and benefits of the plan.

b. Provide the total test year expense for the plan. Indicate the account number(s) used to record the expense. Include supporting workpapers or schedules which show how the test year expense was calculated.

7. The response to the December 14, 1994 Order, Item 10, page 16 of 17, lists five employees included in the plan.

a. Using the EE ID Numbers, list each employee's total benefit package with East Kentucky.

b. Explain why the SERP is needed. Include copies of any studies or analyses performed which examine the adequacy of the total benefit package offered by East Kentucky.

c. Explain why the SERP was included in the wage and salary normalization adjustment.

8. Prepare a schedule showing the total number of positions authorized and the total number vacant, as of calendar year end, for the period 1988 through 1994. Separate hourly positions from salaried positions.

9. The response to the December 14, 1994 Order, Item 11(a), states that, "[F]or rate-making purposes, these vacant positions should be included as a legitimate expense because these positions would not be authorized unless they were needed in the normal course of business of providing power to our member cooperatives."

a. Has East Kentucky performed any studies or analyses to determine its optimal workforce needs or size? Provide copies of these studies or analyses.

b. If the response to (a), above, is no, explain how East Kentucky can support the statement that "these positions would not be authorized unless they were needed."

10. The response to the December 14, 1994 Order, Item 11(b), page 2 of 2 lists wage and salary rates that differ from those provided in response to Item 10, page 17 of 17. Explain the reason(s) for the differences.

11. In the response to Item 12 of the December 14, 1994 Order, East Kentucky indicated that its current wage and salary plan was implemented in 1981, and the last change was a revision to the wage and salary schedules.

a. Indicate the effective date of the major changes to the plan, which are listed in the response.

b. Has East Kentucky considered a full review of the 1981 plan to determine its appropriateness in the 1990's work environment? If yes, indicate when such a review was performed and provide the results of the review. If no review was considered, explain why not.

12. Refer to the response to the December 14, 1994 Order, Item 15, page 6 of 27. Provide a narrative description which explains the information shown on this page.

13. Refer to the response to the December 14, 1994 Order, Item 15, page 22 of 27.

a. Explain the difference between "2X Salary Life" and "Employee Life" coverage.

b. Using the EE ID Numbers shown in the response to Item 10 of the December 14, 1994 Order, prepare a schedule of full-time employees showing the individual coverage under the "2X Salary Life" insurance.

14. Under current federal law, the cost for employer-provided insurance coverage in excess of $50,000 constitutes wages subject

to Federal Insurance Contributions Act ("FICA") taxes.[1] Once the $50,000 coverage level is reached, additional employer-share FICA tax expense is incurred.

a. Did East Kentucky reflect the increased employer-share FICA tax on the 2X Salary Life insurance in its normalization of that tax? If so, identify the adjustment cross-reference. If not, explain why no adjustment was proposed.

b. Explain how the amount of life insurance provided for each eligible employee is determined.

c. Explain why annual premiums for life insurance coverage in excess of $50,000 should be included for rate-making purposes. Include copies of any studies or analyses which indicated that the current levels of coverage for employee life insurance were a necessary part of the total compensation package.

d. Explain why coverage of $50,000 for each eligible employee would not be considered adequate as part of a total compensation package.

15. Provide a copy of the Rural Utilities Services ("RUS") accounting requirements referenced in the response to Item 17 of the December 14, 1994 Order.

16. Refer to the response to Item 20 of the December 14, 1994 Order.

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[1] 26 U.S.C. § 79 (1992).

a. The final Order in Case No. 94-105,[2] indicated that modifications to the Spurlock Station related to service for Inland Container Corporation ("Inland") and other modifications were estimated by East Kentucky to be $19,716,000. In the response to Item 82 of the Attorney General's ("AG") December 14, 1994 data request, East Kentucky indicated the total cost to be $20,230,972. Provide a reconciliation of these two amounts.

b. Provide the calculation of the Inland facilities charge:

(1) immediately prior to the Spurlock Station modifications;

(2) as of test-year end; and

(3) as of December 31, 1994.

Show all components included in the facilities charge. Include all workpapers, schedules, and documents which support the amounts included in the calculations.

c. In the response to Item 82 of the AG's December 7, 1994 data request, East Kentucky provided a schedule of the Spurlock Station improvements, showing the cost assignment between Inland and East Kentucky. For each cost listed in that response, provide the allocation factor used and explain how the cost assignment was determined.

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2 Case No. 94-105, The Application of East Kentucky Power Cooperative, Inc. for the Approval of the Use of Bond-Based Financing in the Amount of Approximately $20,500,000 for Modifications to Its Spurlock Power Station, in Mason County, Kentucky, Related to the Inland Container Project, final Order issued June 7, 1994.

d. Provide all accounting entries East Kentucky makes to record the facilities charge paid by Inland, as well as entries for any related transactions.

17. Refer to the response to Item 23 of the December 14, 1994 Order. If the Federal Energy Regulatory Commission approves a wheeling charge lower than the one which became effective on October 22, 1994, explain how East Kentucky would propose to pass the reduction in expense back to its members.

18. Refer to the response to Item 26(d) of the December 14, 1994 Order. Identify the account number(s) where the $54,086 in expenses were properly recorded. Explain why these expenses should be included for rate-making purposes.

19. Refer to the response to Item 27 of the December 14, 1994 Order. While this response does resolve most of the difference, a reconciliation is still needed. The test-year directors' fees and expenses of $217,853[3] minus the $1,391 in December 1992 expenses paid in January 1993 leaves a total of $216,462. Provide a reconciliation of this amount with the $211,962 shown on Exhibit A, Schedule 20 of the Application, and explain all reconciling items.

20. Refer to the response to Item 30(a) of the December 14, 1994 Order.

a. Indicate where the monthly Committee and Board meetings are held.

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[3] Response to Item 43(c) of the October 26, 1994 Order, page 14 of 16.

b. Provide the dates for each of the regular Committee and Board meetings during the test year.

c. If the monthly Committee and Board meetings are held at East Kentucky's headquarters in Winchester, why were Board members staying at the French Quarter Suites in Lexington? Were there no suitable lodgings available in Winchester?

d. For each individual on the Board during the test year, provide the number of miles travelled one-way to attend regular Committee and Board meetings.

21. Refer to the response to Item 31 of the December 14, 1994 Order. Provide copies from two non-consecutive quarterly reports received from the ticketing agency.

22. Refer to the response to Item 32 of the December 14, 1994 Order. Based on this response, the 24-hour accident coverage for all 18 directors would annually cost approximately $302 while the business travel cost would be approximately $24. Item 43(c), page 15 of 16, filed in response to the October 26, 1994 Order, shows directors' insurance expenses totalling $156,918. Reconcile and explain the difference between these two amounts, and if there is additional insurance coverage, provide the information originally requested in Item 32(a) through 32(d).

23. Refer to the response to Items 33(a), 33(b), and 34 of the December 14, 1994 Order. In Item 33(a), East Kentucky states that the National Rural Electric Cooperative Association ("NRECA") has estimated that the cost of retirement per dollar of payroll will be 18.3 percent once the moratorium is lifted. In Item 33(b),

East Kentucky provided a copy of a "Moratorium Update" dated September 1993, which anticipated that the moratorium would be lifted sometime in 1994. The response to Item 34 indicates the moratorium was lifted in 1994.

a. Has the moratorium been lifted? If yes, indicate the effective date, and provide the information originally requested in Item 33(b).

b. Provide the accounting entries made by East Kentucky to record the resumption of NRECA retirement program costs. Include all workpapers, calculations, assumptions, and other supporting documentation used to determine the amounts recorded on East Kentucky's books.

c. If the moratorium has not been lifted, explain East Kentucky's response to Item 34.

24. Refer to the response to Item 36(b) of the December 14, 1994 Order. Identify the statute or regulation which states that if a fully forecasted test period is selected for a rate application, the utility cannot revert back to a historical test period in any future rate application.

25. Refer to the response to Item 38 of the December 14, 1994 Order.

a. Why does East Kentucky believe that a 1.15 Times Interest Earned Ratio ("TIER") is the minimum level needed?

b. Has East Kentucky performed any analysis or studies to determine its minimum TIER requirement? If yes, provide copies.

26. Refer to the response to Item 42(c) of the December 14, 1994 Order. Does not East Kentucky's desire to keep the February 1, 1995 bonds in the normalized interest expense calculation contradict with its proposal to include additional debt related to the Spurlock Station improvements, even though neither event has occurred? Explain the response.

27. Refer to the response to Item 50(d) of the December 14, 1994 Order. For each of the expenses listed below, describe the purpose of the expense and explain why the expense should be included for rate-making purposes.

a. Employee turkeys.

b. Employee recreation.

c. Employee recruiting/relocation.

d. Employee association lunches.

e. Employee service awards.

f. Employee physicals.

g. Employee flu shots.

h. SERP retirement.

28. The response to the December 14, 1994 Order, Item 51, page 3 of 3, indicates that East Kentucky experienced a gain of $123,658.99 in June 1993 from the disposition of emission allowances. The response to Item 76 indicates that this gain related to the sale of emission allowances retained and sold by the Environmental Protection Agency ("EPA") in 1993. However, Application Exhibit Y, East Kentucky's 1993 FERC Form 1, page 38 of 95, shows no reference to these allowances although the

instructions for this page require such allowances and the gains or losses on their sale be reported. Explain why East Kentucky's FERC Form 1 does not properly reflect these emission allowance activities.

29. Refer to the response to Item 53(a) of the December 14, 1994 Order.

a. When comparing East Kentucky's wages with other surrounding utilities, why was Dayton Power & Light included?

b. East Kentucky's workforce is not unionized. Which utilities of the six reviewed have a non-unionized workforce?

c. Why is it appropriate to compare East Kentucky's wage levels with utilities which have unionized workforces?

d. Why were five of the six utilities used in the analysis investor-owned utilities?

e. Would it not be more appropriate to compare wage levels with other generating and transmission cooperatives? Explain why or why not?

30. Refer to the response to Item 55 of the December 14, 1994 Order. Provide the following additional information concerning these specific responses:

a. Item 55(b). Describe East Kentucky's agricultural activities in its marketing program.

b. Item 55(d). Identify Rural Cooperative and describe its functions.

31. Refer to the response to Item 56 of the December 14, 1994 Order. Provide the following additional information concerning these specific responses:

a. Item 56(c). Describe the Power Quality research project.

b. Item 56(e). Describe how East Kentucky accounts for it member systems' reimbursement on electromagnetic field meters. Include the appropriate accounting entries.

32. Refer to the response to Item 72 of the December 14, 1994 Order.

a. Did East Kentucky prepare any workpapers or schedules as part of its analysis of the impact of Statement of Financial Accounting Standards No. 112? If so, provide copies of the workpapers or schedules.

b. If no workpapers or schedules were prepared as part of this analysis, explain how East Kentucky determined the impact would be immaterial.

33. Refer to the response to Item 74 of the December 14, 1994 Order.

a. In evaluating the benefit to cost ratio of membership in the Electric Power Research Institute, were analyses similar to the one shown on page 15 of 42 required?

b. If yes, provide copies. If no, explain why such analyses were not required.

34. Item 53 of the October 26, 1994 Order requested East Kentucky to periodically update its rate case expenses. As part of

those updates, East Kentucky was to provide copies of any invoices, contracts or other documentation supporting the charges incurred. The update filed on January 3, 1995 did not contain the requested documentation.

a. Provide the originally requested documentation for the January 3, 1995 update.

b. Did the January 3, 1995 update reflect the total-to-date costs or the costs incurred since the initial response to Item 53 for the preparation of this rate case? The original request envisioned updates addressing only the additional costs incurred since the previous report. If necessary, revise the January 3, 1995 filing.

35. Refer to the response to Item 77 of the December 14, 1994 Order.

a. Does East Kentucky agree that the proceeds from the sale of emission allowances should be returned to its member cooperatives and eventually their ratepayers? Explain East Kentucky's position.

b. Explain how East Kentucky would propose to return the 1993 and 1994 EPA emission allowance sale proceeds.

36. Refer to the response to Item 78 of the December 14, 1994 Order.

a. Prepare a schedule showing the additional operating and maintenance expenses East Kentucky incurred related to the new operations center building and the addition to its headquarters office building. Provide the information for the test year and for the period from the building completion date through December 31, 1994.

b. Were the increases in Account No. 391 related to the utilization of these two buildings? Using the listing shown in the response to Item 47, pages 2 through 4 of 4, indicate which items are associated with either of the two buildings.

37. Refer to the response to Item 83 of the December 14, 1994 Order. Two major reasons are given for why a revenue adjustment based on year-end customers has not been proposed and both are related to the issue of adjusting billing units to coincide with the adjustment to revenues.

a. Is it East Kentucky's belief that an adjustment to billing units must be made in conjunction with a revenue adjustment based on year-end customers?

b. Has East Kentucky reviewed any year-end customer adjustments to revenues that have been proposed or approved in other utilities' cases before this Commission?

38. The response to the December 14, 1994 Order, Item 85, Footnote No. 1 indicates that wheeling costs for the 45 MW supplied by East Kentucky to Gallatin Steel through KU's transmission facilities will be recovered through the demand charges paid by Gallatin Steel. There are three levels of demand charges for East Kentucky's service to Gallatin Steel, i.e. firm, interruptible 1, and interruptible 2. Show how, and at what level(s), these wheeling costs are being recovered.

39. The response to Item 95(b) of the December 14, 1994 Order states that East Kentucky considers the costs associated with distribution substations to be more consumer-related than demand-related. Does this imply that the need for and size of new distribution substations are determined not by the load in a particular area, but rather by the number of customers to be served?

40. Refer to the responses to Items 5 and 5(a) of the AG's December 14, 1994 data request.

a. Item 5, page 1 of 1, shows the test year amounts of fuel billed through the base rate and through the fuel adjustment charge (credit). Does the net amount from these two columns, which equals $81,420,784, represent the level of fuel cost recovered through rates during the test year?

b. Items 5(a) and 5(b), page 1 of 73, show the test year fuel cost recorded by East Kentucky as used to calculate the monthly FAC factors. The sum of the monthly totals equals $81,672,974. Does this amount represent the level of fuel cost incurred by East Kentucky to serve member cooperatives' energy needs during the test year?

c. Item 5, page 1 of 1, shows test year KWH sales of 6,843,455,103 and the year-end base fuel rate of $0.01271. Multiplying these two numbers results in a product of $86,980,314. Does this amount represent the fuel component of East Kentucky's normalized test year revenues?

41. Refer to the response to Item 10 of the AG's December 14, 1994 data request. Why does the test-year actual expense for Group Life Insurance exceed the total benefit costs recorded in Account No. 926? Why was this the only employee benefit cost where the test-year actual expense exceeded the cost recorded in Account No. 926?

42. Refer to the response to Item 14 of the AG's December 14, 1994 data request. Provide the case number for the proceeding where approval for Loan R-12 was sought.

43. Refer to the response to Item 48 of the AG's December 14, 1994 data request. Explain why the annual report expense increased approximately 52 percent between 1992 and 1993.

44. Refer to the response to Item 55 of the AG's December 14, 1994 data request. Why did RUS request the listed accounts to be transferred? Include any specific reason(s) for individual account changes.

45. Refer to the response to Item 61(p) of the AG's December 14, 1994 data request. For each of the referenced transactions, explain the purpose of the transaction. Include a description of the purpose of this organization. Explain why these expenses should be included for rate-making purposes.

a. Subpart 1, page 4 of 52, voluntary contribution paid to NRECA to fund environmental and legislative issues. Include copies of the referenced attached letter.

b. Subpart 1, page 32 of 52, membership in Electric Information Council.

c. Subpart 1, page 38 of 52, annual dues to the East Kentucky Corporation.

d. Subpart 1, page 42 of 52, support of Southeastern Federal Power Customers, Inc.

e. Subpart 2, page 1 of 6, payment to the Coop Integrity Fund.

f. Subpart 3, page 1 of 3, payment for the NRECA 1993 Pro-Electricity Marketing and Advertising Campaign.

g. Subpart 4, page 6 of 19, payment to Rees Printing Company for 2,500 calendars.

46. Refer to the response to Item 61(r) of the AG's December 14, 1994 data request. This part of the response contains a detailed schedule of Account No. 921 transactions. For each of listed vendors, provide a description of the goods or services purchased during the test year. Indicate whether these expenses reflect recurring transactions. Also indicate whether the test-year level of expense reflects a reasonable, on-going level of expense for East Kentucky.

a. Smith Issue Fees.

b. Spurlock Issue Fees.

c. Insurance Expense - Officers.

d. Interior Design.

e. DCT Design Group.

f. KPC Architecture.

g. Anacomp.

h. International Business.

i. SAS Institute.

j. ServiceMaster.

k. French Quarter.

l. Delta Air Lines.

m. Dun & Bradstreet.

n. Meadowview Regional.

o. Somerset Clinic.

p. Clark Regional.

q. Willamette Industries.

r. National Society.

s. Covey Leadership.

t. Automatic Data.

u. Chapman Printing.

v. WESCO.

w. Zellerbach.

x. J. A. Kindel Co.

47. Regarding other postretirement employee benefits ("OPEBs"), provide the following:

a. The 1993 pay-as-you-go amount (cash outlay).

b. The estimated level at which East Kentucky anticipates funding OPEBs.

c. The anticipated date for the funding of OPEBs to begin.

48. Refer to Exhibit S of the Application, page 18 of 22.

a. It is stated that in calculating OPEBs, the escalation rate "was assumed to decrease gradually to 5 percent after 30 years and remain at that level thereafter." Recalculate the 1993 annual OPEB expense and December 31, 1993 OPEB liability using an escalation rate of 8 percent in 1993 with it decreasing to 5 percent over 30 years and remaining at that level thereafter.

b. It is stated that a 1 percent increase in the health care trend rate would increase the 1993 OPEB liability by $6,777,234 and the 1993 annual expense by $909,164. Given this statement, explain the response to Item 66 of the December 14, 1994 Order in which a 7 percent decrease in the health care trend rate would result in a decrease of $3,221,529 ($29,244,257 - $26,022,728) in the OPEB liability and a decrease of $714,288 ($3,670,168 - $2,955,880) in the annual OPEB expense.

49. Provide the percentage of East Kentucky's salaries and wages that were capitalized into utility plant in service in 1993.

50. In response to Item 10(c) of the AG's December 14, 1994 data request, it is stated that all OPEB costs were expensed. Provide an explanation for not capitalizing a portion of OPEB expense with the related capitalized salaries and wages.

51. Refer to the response Item 63(b) of the December 14, 1994 Order, as it regards the 6 percent administrative costs for OPEBs.

a. Provide a complete explanation for the 6 percent administrative costs.

b. Provide all calculations and workpapers used in the determination of the 6 percent.

c. Provide the name of the recipient of the 6 percent administrative costs.

Done at Frankfort, Kentucky, this 27th day of January, 1995.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Executive Director